

**Marquette Area
Wastewater Treatment Facility
Marquette, Michigan**

**FINANCIAL STATEMENTS
June 30, 2004 and 2003**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Marquette Area Wastewater Treatment Facility	County Marquette
Audit Date June 30, 2004	Opinion Date November 12, 2004	Date Accountant Report Submitted to State: December 28, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

DEPT. OF TREASURY
JAN 03 2005
pm 11:10
LOCAL AUDIT & FINANCE

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- yes no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- yes no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- yes no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- yes no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- yes no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- yes no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- yes no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- yes no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- yes no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Co. P.C.			
Street Address 102 W. Washington, Suite 109	City Marquette	State MI	ZIP 49855
Accountant Signature Rebecca Hill CPA			

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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN
ESCANABA
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INDEPENDENT AUDITORS' REPORT

Marquette Area Wastewater Treatment
Facility Advisory Board
Marquette, Michigan

We have audited the statement of net assets of the Marquette Area Wastewater Treatment Facility, as of June 30, 2004 and 2003, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marquette Area Wastewater Treatment Facility at June 30, 2004 and 2003, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2004 on our consideration of the Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note A, the Marquette Area Wastewater Treatment Facility has implemented a new financial reporting model as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

Marquette Area Wastewater Treatment
Facility Advisory Board

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents as other financial information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

November 12, 2004

Marquette Area Wastewater Treatment Facility

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Marquette Area Wastewater Treatment Facility's financial performance provides an overview of the Facility's financial activities for the year ended June 30, 2004. Please read it in conjunction with the financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The Facility's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for the Facility as a whole were reported at \$5,535,060. Net assets are comprised of 100% business-type activities.
- During the year, the Facility's total expenses were \$1,584,064, while revenues from all sources totaled \$1,290,000 resulting in a decrease in net assets of \$294,064.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 9 and 10) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility finances.

Reporting the Facility as a Whole

One of the most important questions asked about the Facility's finances is "Is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's *net assets* and changes in them. You can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or *financial position*. Over time, *increases or decreases* in the Facility's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's operating base and the condition of the Facility's capital assets, to assess the *overall financial health* of the Facility.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to residents to help it cover the cost of services it provides.

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
The Facility as a Whole (Continued)

Table I provides a summary of the Facility's net assets as of June 30, 2004

Table 1	
Net Assets	
	2004
Current and other assets	\$1,366,615
Restricted assets	1,220,444
Capital assets, net	<u>4,391,437</u>
Total Assets	<u>6,978,496</u>
Current liabilities	1,443,436
Noncurrent liabilities	-
Total Liabilities	<u>1,443,436</u>
Net Assets:	
Invested in capital assets	4,391,437
Restricted	1,061,327
Unrestricted	<u>82,296</u>
Total Net Assets	<u>\$5,535,060</u>

Net assets of the Facility's business-type activities stood at \$5,535,060. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$82,296.

The \$82,296 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal year 2004. Since this is the first year the Facility has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

Table 2	
Changes in Net Assets	
	2004
Operating revenues:	
Service revenues	\$1,186,510
Other operating revenues	<u>19,477</u>
Total Operating Revenues	<u>1,205,987</u>
Operating expenses:	
Operations	1,212,370
Depreciation	<u>371,694</u>
Total Operating Expenses	<u>1,584,064</u>
Income (loss) from Operations	<u>(378,077)</u>

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
The Facility as a Whole (Continued)

	<u>2004</u>
Nonoperating Revenues (Expenses):	
Interest income	\$ 11,028
Transfers other local units	<u>72,985</u>
Total Nonoperating Revenues (Expenses)	<u>84,013</u>
Increase (decrease) in net assets	(294,064)
Net assets, beginning	<u>5,829,124</u>
Net Assets, Ending	<u><u>\$5,535,060</u></u>

The Facility's total revenues were \$1,290,000. The total cost of all programs and services was \$1,584,064, leaving a decrease in net assets of \$294,064 as a result of fiscal year 2004 operations.

Due to changes in the GASB 34 requirements we are no longer adding back the depreciation on the buildings which was paid for by grants from the State and Federal government. Therefore, the City and Township will continue to show a decrease in their net assets until such time as the buildings are fully depreciated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the Facility had \$4,391,437 invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below)

Table 4
Capital Assets at Year-End

	<u>2004</u>
Land	\$ 192,772
Buildings	12,867,773
Equipment and furnishings	126,382
Vehicles	<u>65,949</u>
	13,252,876
Accumulated depreciation	<u>(8,861,439)</u>
Totals	<u><u>\$ 4,391,437</u></u>

Debt

The Facility has no outstanding debt at year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the budget for the year ending June 30, 2005 there appears to be no anticipated changes in operations of funding concerns.

CONTACTING THE FACILITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility Administrator at Marquette Area Wastewater Treatment Facility, 300 W. Baraga Avenue, Marquette, Michigan 49855.

Marquette Area Wastewater Treatment Facility
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2004 and 2003

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,173,198	\$ 323,314
Accounts Receivable:		
Due from Local Units:		
City of Marquette - General Fund	-	-
City of Marquette - Water and Sewer Fund	180,825	-
Marquette Township	-	-
Chocolay Township	8,815	-
Other	1,714	12,772
Prepaid expenses	2,063	1,764
TOTAL CURRENT ASSETS	1,366,615	337,850
RESTRICTED ASSETS:		
Vacation and sick leave reserve	159,118	138,097
Replacement Fund:		
Long-term receivable from local units:	-	127,827
Replacement reserve	942,691	785,719
Escrow reserve	118,635	118,135
TOTAL RESTRICTED ASSETS	1,220,444	1,169,778
CAPITAL ASSETS:		
Plant and equipment in service	13,252,876	13,204,891
Less accumulated depreciation	(8,861,439)	(8,489,745)
TOTAL CAPITAL ASSETS	4,391,437	4,715,146
TOTAL ASSETS	6,978,496	6,222,774
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable local units:		
City of Marquette - General Fund	1,234,097	119,080
City of Marquette - Motor/Vehicle Equipment Fund	2,229	194
City of Marquette - Water & SD Fund	-	76,430
Marquette Township	856	3,562
Chocolay Township	-	498
Accounts payable	47,137	55,789
Accrued sick and vacation payable	159,117	138,097
TOTAL CURRENT LIABILITIES	1,443,436	393,650
TOTAL LIABILITIES	1,443,436	393,650
NET ASSETS:		
Invested in Capital Assets		
Unrestricted	4,391,437	4,715,146
Restricted:	82,296	82,297
Replacement reserve	942,692	913,546
Escrow reserve	118,635	118,135
TOTAL NET ASSETS \$	5,535,060	\$ 5,829,124

The accompanying notes to financial statements are an integral part of this statement.

Marquette Area Wastewater Treatment Facility
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Services for City of Marquette	\$ 951,423	\$ 967,538
Services for Marquette Township	77,427	75,921
Services for Chocolay Township	46,929	47,784
Services to others	110,731	116,131
Equipment rental and miscellaneous	19,477	20,207
TOTAL OPERATING REVENUES	<u>1,205,987</u>	<u>1,227,581</u>
Operating Expenses:		
Operation labor	295,713	298,995
Operation supplies and expenses	59,927	75,100
Chemicals	76,511	84,778
Purchased power and utilities	110,773	115,449
Education	2,251	4,615
Professional services	133,692	119,883
Administrative:		
Salaries and wages	87,130	87,322
Salaries and wages - other	21,021	12,593
Fringe benefits	181,250	175,269
Office supplies	595	1,287
Professional and contractual	88,133	81,019
Communications	1,538	1,535
Insurance and bonds	30,808	32,360
Rental	1,772	1,947
Miscellaneous	14	2,569
Depreciation	371,694	371,922
Payment in lieu of taxes	121,242	136,964
Loss on retirement of assets	-	53,277
TOTAL OPERATING EXPENSES	<u>1,584,064</u>	<u>1,656,884</u>
OPERATING LOSS	(378,077)	(429,303)
Other Income and expense:		
Interest income	11,028	10,576
LOSS BEFORE OPERATING TRANSFERS	(367,049)	(418,727)
Transfers from local units	72,985	59,291
CHANGE IN NET ASSETS	(294,064)	(359,436)
NET ASSETS, BEGINNING OF THE YEAR	<u>5,829,124</u>	<u>6,188,560</u>
NET ASSETS, END OF YEAR	<u>\$ 5,535,060</u>	<u>\$ 5,829,124</u>

The accompanying notes to financial statements are an integral part of this statement.

Marquette Area Wastewater Treatment Facility
COMPARATIVE STATEMENT OF CASH FLOWS
For the years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash Flows from Operations:		
Collections from customers	\$ 1,027,405	\$ 1,284,141
Payments to employees and service providers	<u>(162,883)</u>	<u>(1,089,096)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>864,522</u>	<u>195,045</u>
Cash Flows from Capital & Related Financing Activities:		
Purchase of equipment	(47,985)	(34,291)
Transfers from local units	<u>72,985</u>	<u>59,291</u>
NET CASH PROVIDED BY CAPITAL & RELATED FINANCING ACTIVITIES	<u>25,000</u>	<u>25,000</u>
Cash Flows from Investing Activities:		
(Increase) in restricted assets	(50,666)	(44,065)
Interest Income	<u>11,028</u>	<u>10,576</u>
NET CASH (USED) IN INVESTING ACTIVITIES	<u>(39,638)</u>	<u>(33,489)</u>
NET INCREASE IN CASH	849,884	186,556
Cash, beginning of year	<u>323,314</u>	<u>136,758</u>
CASH, END OF YEAR	<u>\$ 1,173,198</u>	<u>\$ 323,314</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating loss	\$ (378,077)	\$ (429,303)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	371,694	371,922
(Increase) decrease in accounts receivable	(178,582)	56,560
(Increase) in prepaid expense	(299)	(224)
Increase in payables and accruals	1,049,786	142,813
Loss on retired assets	<u>-</u>	<u>53,277</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 864,522</u>	<u>\$ 195,045</u>

The accompanying notes to financial statements are an integral part of this statement.

MARQUETTE AREA WASTEWATER TREATMENT FACILITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

NOTE A – DESCRIPTION OF THE REPORTING ENTITY:

On April 19, 1977 and May 31, 1983, the City of Marquette, the Charter Township of Marquette and the Charter Township of Chocolay entered into contracts to construct and operate a secondary wastewater treatment facility. Under those agreements, the City of Marquette would own 79.8%, the Charter Township of Marquette would own 5.5%, and the Charter Township of Chocolay would own 14.7%. The facility was constructed by the County of Marquette and was financed through a grant from the Environmental Protection Agency for 75% of the costs, a grant from the Department of Natural Resources for 5% of the costs, and \$2.5 million general obligation bonds issued by the County of Marquette to the City of Marquette and the two townships. The costs of the project not related to the treatment plant, and the proportionate share of Federal and State grants in aid of construction and related bonds payable, are not recognized in these financial statements, but will be recorded by the local unit to which they pertain. These costs amount to approximately \$2,138,000.

On July 1, 1993, there was an amendment to the Marquette County Wastewater Disposal System contract to change the ownership of the three partners involved. The Charter Township of Marquette paid to the City of Marquette and the Charter Township of Chocolay each the sum of \$54,743, representing an allocation of an additional 4.5% of the capacity of the Marquette Area Wastewater Treatment Facility to Marquette Township. The new ownership percentages for the City of Marquette, the Charter Township of Chocolay and the Charter Township of Marquette are 77.55%, 12.45% and 10.00%, respectively.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Marquette Area Wastewater Treatment Facility conform to generally accepted accounting principles as applicable to governments in the United States of America. The following is a summary of the more significant policies:

(1) Fund Accounting - Marquette Area Wastewater Treatment Facility is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Facility's assets, liabilities, net assets, revenues and expense accounts. The Marquette Area Wastewater Treatment Facility is defined under generally accepted terminology as a proprietary enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(2) Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.

(3) Mission Statement and Nonoperating Revenues and Expenses - The Facility's primary mission is to provide wastewater treatment services through its facility. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Facility's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

Cash and Equivalents

For the purposes of the statement of cash flows, the Facility considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair market value.

Accounts Receivable

Accounts receivable consists primarily of amounts due from other governmental units that pay their respective bills on a monthly basis. Therefore, no allowance for doubtful accounts has been established.

Inventory

Inventories of operating supplies are stated at the lower of cost or market, determined by the first-in, first-out method of valuation.

(1) Land, Buildings, and Equipment - Land, buildings, and equipment (capital assets) relating to the operations of the Facility are recorded at cost and accounted for in the Marquette Area Wastewater Treatment Facility Fund. Depreciation on such capital assets is charged as an expense against the operations of the Facility using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 10 to 40 years.

(2) Board-Designated Assets - Certain investments of the Unrestricted Fund have been internally designated by the Board for the funding of plant replacement, expansion and other specified projects.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(3) Use of Estimates - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(4) Accounting Change – Effective July 1, 2003, the Facility implemented the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Facility’s financial statements as a result of GASB No. 34 included the addition of a Management’s Discussion and Analysis section to provide an analysis of the Facility’s overall financial position as well as changing the classification of “retained earnings” to “net assets”.

NOTE C – RECONCILIATION OF RECEIVABLE (PAYABLE) ACCOUNTS:

	City of <u>Marquette</u>	Chocolay <u>Township</u>	Marquette <u>Township</u>	<u>Total</u>
BALANCE, JUNE 30, 2002	\$51,102	\$8,050	\$6,940	\$66,092
CHARGES:				
Demand Related Charges	199,995	32,108	25,789	257,892
Repayment Replace Reserves	117,876	18,924	15,200	152,000
Flow related charges	961,224	28,601	65,538	1,055,363
General and Protective Fees	-	3,327	2,673	6,000
EQUITY CONTRIBUTIONS:				
Replacement Reserve	22,769	678	1,553	25,000
Earned Interest Reinvested	<u>5,894</u>	<u>175</u>	<u>402</u>	<u>6,471</u>
TOTAL CHARGES	<u>1,307,758</u>	<u>83,813</u>	<u>111,155</u>	<u>1,502,726</u>
PREPAYMENTS AND OTHER CREDITS:				
Wastewater services	1,156,092	63,152	92,909	1,312,153
CREDIT FOR OTHER REVENUES:				
Demand related	12,283	1,972	1,584	15,839
Flow related	113,489	3,377	7,738	124,604
Earned interest reinvested	5,894	175	402	6,471
Adjustments for retired assets	41,316	6,633	5,328	53,277
Payment-in-lieu rebate	<u>106,216</u>	<u>17,052</u>	<u>13,696</u>	<u>136,964</u>
TOTAL PAYMENTS AND OTHER CREDITS	<u>1,435,290</u>	<u>92,361</u>	<u>121,657</u>	<u>1,649,308</u>
NET CHANGE FOR THE YEAR	<u>(127,532)</u>	<u>(8,548)</u>	<u>(10,502)</u>	<u>(146,582)</u>
BALANCE, JUNE 30, 2003	<u>(76,430)</u>	<u>(498)</u>	<u>(3,562)</u>	<u>(80,490)</u>
CHARGES:				
Demand Related Charges	155,902	25,029	20,104	201,035
Repayment Replace Reserves	99,130	15,914	12,783	127,827
Flow related charges	954,510	30,138	69,128	1,053,776
General and Protective Fees	-	3,074	2,469	5,543

NOTE C – RECONCILIATION OF RECEIVABLE (PAYABLE) ACCOUNTS (Continued):

	City of <u>Marquette</u>	Chocolay <u>Township</u>	Marquette <u>Township</u>	<u>Total</u>
EQUITY CONTRIBUTIONS:				
Replacement Reserve	\$ 22,645	\$ 715	\$ 1,640	\$ 25,000
Earned Interest Reinvested	<u>4,208</u>	<u>133</u>	<u>305</u>	<u>4,646</u>
TOTAL CHARGES	<u>1,236,395</u>	<u>75,003</u>	<u>106,429</u>	<u>1,417,827</u>
PREPAYMENTS AND OTHER CREDITS:				
Wastewater services	759,130	45,124	81,821	886,075
CREDIT FOR OTHER REVENUES:				
Demand related	11,572	1,858	1,492	14,922
Flow related	110,207	3,480	7,981	121,668
Earned interest reinvested	4,208	133	305	4,646
Payment-in-lieu rebate	<u>94,023</u>	<u>15,095</u>	<u>12,124</u>	<u>121,242</u>
TOTAL PAYMENTS AND OTHER CREDITS	<u>979,140</u>	<u>65,690</u>	<u>103,723</u>	<u>1,148,553</u>
NET CHANGE FOR THE YEAR	<u>257,255</u>	<u>9,313</u>	<u>2,706</u>	<u>269,274</u>
BALANCE, JUNE 30, 2004	<u>\$180,825</u>	<u>\$ 8,815</u>	<u>\$ (856)</u>	<u>\$ 188,784</u>

NOTE D – SEWAGE FLOW INFORMATION USED IN ALLOCATING VARIABLE COSTS:

	<u>2004</u>		<u>2003</u>	
	Sewage Flow (100 C.F.)	Percent	Sewage Flow (100 C.F.)	Percent
City of Marquette	1,497,651	90.58%	1,564,611	91.08%
Marquette Township	108,512	6.56%	106,689	6.21%
Chocolay Township	<u>47,266</u>	<u>2.86%</u>	<u>46,601</u>	<u>2.71%</u>
TOTALS	<u>1,653,429</u>	<u>100.00%</u>	<u>1,717,901</u>	<u>100.00%</u>

NOTE E – DEFINED BENEFIT PENSION PLAN:

Plan Description

Through the City of Marquette, the Marquette Area Wastewater Treatment Facility contributes to the Municipal Employees Retirement System of Michigan (System), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917-9755.

The qualified employees of the Fire Department and the Police Department of the City are included in a separate self-administered plan. The employees of the Marquette Board of Light and Power are included in a separate plan. All other full-time employees of the City and the Marquette Area Wastewater Treatment Facility are eligible to participate in the System. Benefits vest after six years for senior management and after ten years for all others. City employees who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, annual benefits are

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued):

determined by negotiated contractual benefits within statute guidelines. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

Active employees with ten or more years of service, who become disabled receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

If an employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85% of the deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Funding Policy

City employees are required to contribute five percent of their annual compensation to the System. The City pays the contribution for senior management. The City is required to contribute the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost

Funding information is not available for the Marquette Area Wastewater Treatment Facility as a separate unit. Therefore, the information given is the total of the City of Marquette and the Marquette Area Wastewater Treatment Facility. For the year ended June 30, 2004, the City's annual pension cost of \$521,245 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age normal cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% a year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten year trend information may be found as follows:

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued):

City of Marquette, Michigan
MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN
DEFINED BENEFIT PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date <u>December 31</u>	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
1993	\$9,994,540	\$9,843,467	\$ (151,072)	102%	\$4,298,409	0%
1994	10,673,555	11,133,695	460,140	96	4,684,593	10
1995	11,393,263	11,735,154	341,891	97	4,590,387	7
1996	12,436,500	13,648,879	1,212,379	91	4,717,183	26
1997	13,630,932	15,461,563	1,830,631	88	4,800,223	38
1998	15,257,550	16,216,678	959,128	94	5,031,270	19
1999	16,969,765	17,430,314	430,549	97	4,909,541	9
2000	18,722,203	20,136,439	1,414,236	93	4,803,572	29
2001	20,056,537	23,113,321	3,056,784	87	5,039,800	61
2002	20,799,934	24,588,188	3,788,254	85	5,227,706	72
2003	22,629,322	25,997,838	3,368,516	87	5,393,986	65

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year <u>Ending June 30</u>	Valuation Date <u>December 31</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1993	1990	0	100.0%	0
1994	1991	0	100.0%	0
1995	1992	0	100.0%	0
1996	1993	\$ 40,840	100.0%	0
1997	1994	103,124	100.0%	0
1998	1995	153,696	100.0%	0
1999	1996	295,912	100.0%	0
2000	1997	424,066	100.0%	0
2001	1998	381,485	100.0%	0
2002	1999	399,053	100.0%	0
2003	2000	456,453	100.0%	0
2004	2001	521,245	100.0%	0

NOTES TO THE REQUIRED SCHEDULES

The required contribution was determined using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% per year, compounded annually, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0.00% to 4.16% per year, depending

NOTE E – DEFINED BENEFIT PENSION PLAN (Continued):

on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.

NOTE F – DEPOSITS AND INVESTMENTS:

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets:

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash and equivalents	\$1,173,198	\$ 323,314
Restricted Assets:		
Vacation & Sick Leave Reserve	159,118	138,097
Replacement Reserve	942,691	785,719
Long-term Receivable from local units	-	127,827
Escrow reserve	<u>118,635</u>	<u>118,135</u>
	<u>\$2,393,642</u>	<u>\$1,493,092</u>

The carrying amount of the Facility's deposits with financial institutions was \$1,173,198 and the bank balance was \$1,485,144. Of the bank balance, \$100,000 or approximately 7% was covered by federal depository insurance according to FDIC regulations.

The Facility's investments are categorized at year end to reflect an indication of the level of risk assumed. The investments are all considered to be Category 3 which includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the Facility's name.

FDIC Regulation Number 330.8 provides that each participant's account as well as deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 in every financial institution that is not a branch location that is a member of the FDIC in the following deposit accounts.

1. All demand, non-interest bearing accounts in the name of the authorized or statutory custodian of public funds.
2. All savings deposits which include regular passbook, daily interest savings and time certificates of deposit in the name of the governmental unit's custodian.
3. Each bookholder is insured pro-rata for the lesser of the amount on deposit in the debt retirement account or \$100,000. Each separate debt issue or debt series is similarly insured.

NOTE F – DEPOSITS AND INVESTMENTS – (Continued):

4. The demand accounts and savings accounts as defined in items 1 and 2 above for those bank accounts in the name of a specific fund when all of the following criteria is applicable.
 - a. The fund is created by a specific State statute.
 - b. The functions of the fund are specified by State statute.
 - c. Money is allocated by State statute for the exclusive use of that fund and statutory function.

Statutory Authority

Act 196, PA 1997, authorized the Facility to deposit and invest in:

1. Bonds and other direct obligations of the United States or its agencies.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of Federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended.
3. Commercial paper rate at time of purchase within the two highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
4. United States government or Federal agency obligation repurchase agreements.
5. Banker's acceptance of United States banks.
6. Mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.
7. Obligations of the state of Michigan or its political subdivisions which are rated investment grade.
8. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Facility's investments are in accordance with statutory authority.

Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

NOTE G – PLANT AND EQUIPMENT:

The plant and equipment of the Facility are as follows:

	Balance at June 30, 2003	Additions	Disposals	Balance at June 30, 2004
Land improvements	\$ 192,772	\$ -	\$ -	\$ 192,772
Buildings and improvements	12,819,788	47,985	-	12,867,773
Equipment	126,382	-	-	126,382
Vehicles	65,949	-	-	65,949
Less accumulated depreciation	<u>(8,489,745)</u>	<u>(371,694)</u>	<u>-</u>	<u>(8,861,439)</u>
	<u>\$ 4,715,146</u>	<u>\$ (323,709)</u>	<u>\$ -</u>	<u>\$ 4,391,437</u>

NOTE H – RECONCILIATION OF FUND EQUITY:

	City of Marquette Water & Sewer Fund	Township of Marquette	Township of Chocolay	State and Federal	Replacement Reserve	Escrow Reserve	Total
Balance, June 30, 2002	\$2,058,211	\$266,387	\$329,391	\$2,534,361	\$883,010	\$117,200	\$6,188,560
Contributions by Local Units:							
Capital Outlay	26,593	3,430	4,269	-	-	-	34,292
Loss on retired assets	(41,316)	(5,328)	(6,633)	-	-	-	(53,277)
Replacement Reserve Activity:							
Annual contribution	-	-	-	-	25,000	-	25,000
Earned interest	-	-	-	-	5,536	935	6,471
Depreciation	<u>(66,348)</u>	<u>(8,555)</u>	<u>(10,652)</u>	<u>(286,367)</u>	<u>-</u>	<u>-</u>	<u>(371,922)</u>
Net Gain (Loss)	<u>(81,071)</u>	<u>(10,453)</u>	<u>(13,016)</u>	<u>(286,367)</u>	<u>30,536</u>	<u>935</u>	<u>(359,436)</u>
Balance, June 30, 2003	<u>1,977,140</u>	<u>255,934</u>	<u>316,375</u>	<u>2,247,994</u>	<u>913,546</u>	<u>118,135</u>	<u>5,829,124</u>
Contributions by Local Units:							
Capital Outlay	37,212	5,974	4,799	-	-	-	47,984
Annual contribution	-	-	-	-	25,000	-	25,000
Earned interest	-	-	-	-	4,646	500	5,146
Depreciation	<u>(66,171)</u>	<u>(10,623)</u>	<u>(8,533)</u>	<u>(286,367)</u>	<u>-</u>	<u>-</u>	<u>(371,694)</u>
Net Gain (Loss)	<u>(28,960)</u>	<u>(4,649)</u>	<u>(3,734)</u>	<u>(286,367)</u>	<u>29,646</u>	<u>500</u>	<u>(293,594)</u>
Balance, June 30, 2004	<u>\$1,948,181</u>	<u>\$251,285</u>	<u>\$312,642</u>	<u>\$1,961,627</u>	<u>\$943,192</u>	<u>\$118,635</u>	<u>\$5,535,560</u>

NOTE I - OTHER POST EMPLOYMENT BENEFITS:

Substantially all employees of the Wastewater Treatment Facility are covered under employment contracts with the City of Marquette, which acts as the employer and the employee based on collective bargaining agreements. The Facility pays health care costs on the "pay-as-you-go" basis, whereby the expense is recorded based on premiums paid. No accrual is recorded for future liabilities that may arise for the benefit of terminated or retired employees. The cost of determining the Facility's share of this potential future liability cannot be readily determined.

COMPLIANCE SUPPLEMENT



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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GREEN BAY
MILWAUKEE

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Marquette Area Wastewater Treatment Facility
Advisory Board
Marquette, Michigan

We have audited the financial statements of the Marquette Area Wastewater Treatment Facility as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Marquette Area Wastewater Treatment Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marquette Area Wastewater Treatment Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Facility, federal and state awarding agencies and is not intended to be used and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

November 12, 2004